

1st Half of Fiscal 2014 Financial Results

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SHIONOGI

Overview of 1st Half FY2014 Financial Results

Summary of 1H FY2014

Sales on track

Operating income and ordinary income higher than 1H forecasts

- Ordinary income: higher than the levels achieved in the 1H of any prior fiscal year (third straight year)

Net income exceeded 1H forecast, excluding an allowance recorded as prior period income taxes

Accelerating global development of high-priority compounds through clear priorities and focused resourcing (S-297995, S-888711, S-649266, etc.)

Financial Results (Consolidated)

(Units: B yen)

	FY2014 forecasts	FY2014 1H forecasts*	FY2014 1H results	Achievement (%)	FY2013 1H results	Y on Y change (%)	Y on Y change
Sales	269.0	130.0	129.8	99.9	138.7	(6.4)	(8.9)
Operating income	45.0	18.5	22.7	122.8	27.9	(18.7)	(5.2)
Ordinary income	50.0	24.0	31.4	130.9	27.3	15.0	4.1
Net income	33.0	16.0	9.7	60.7	21.1	(53.9)	(11.4)
Net income	-	-	**23.5	-	21.1	-	-

- **Ordinary income level from Apr. to Sep. 2014 is higher than the levels achieved in the 1H of any prior fiscal year (third straight year)**

Note:
All numerical values are rounded to the nearest unit.
The accounting policy for R&D expenses was changed effective Apr. 1, 2014. Figures for FY2013 have been restated to reflect this change.

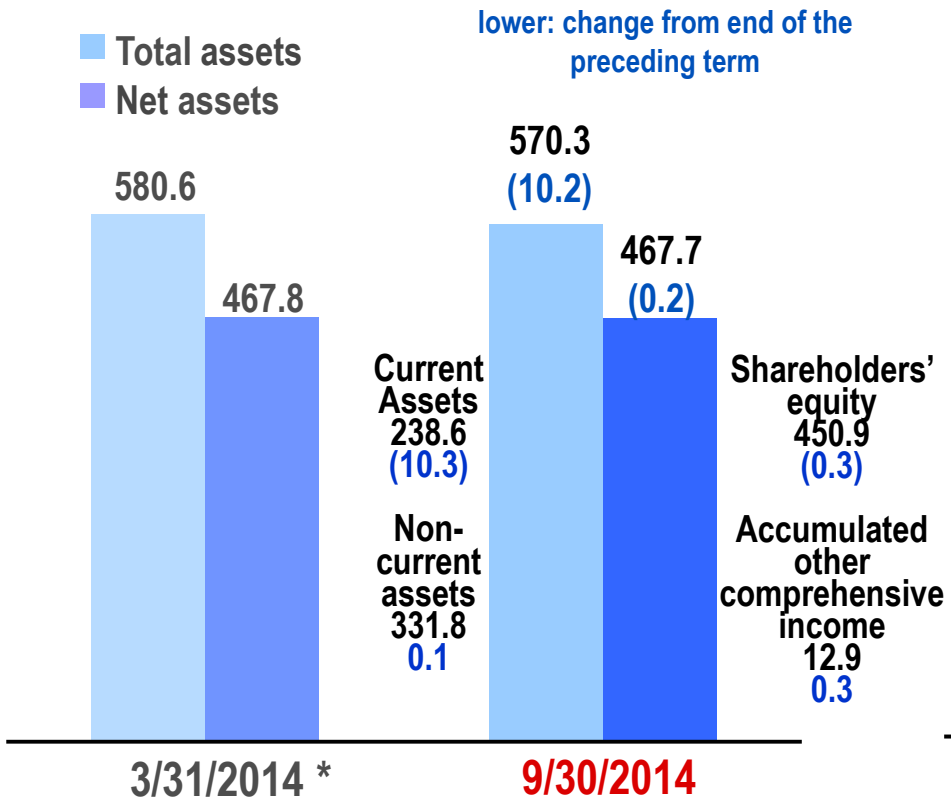
Exchange rate (average)	FY2014 forecasts	FY2014 1H results
USD ($) – JPY (¥)	100	103.01
EUR (€) – JPY (¥)	140	138.90
GBP (£) – JPY (¥)	165	172.73

* The consolidated earnings forecasts announced on May 9, 2014 were written here, and the revisions to the forecasts were announced on Oct. 20, 2014
** Hypothetical net income excluding the additional allowance recorded as prior period income taxes

Financial Position and Cash Flow (Consolidated)

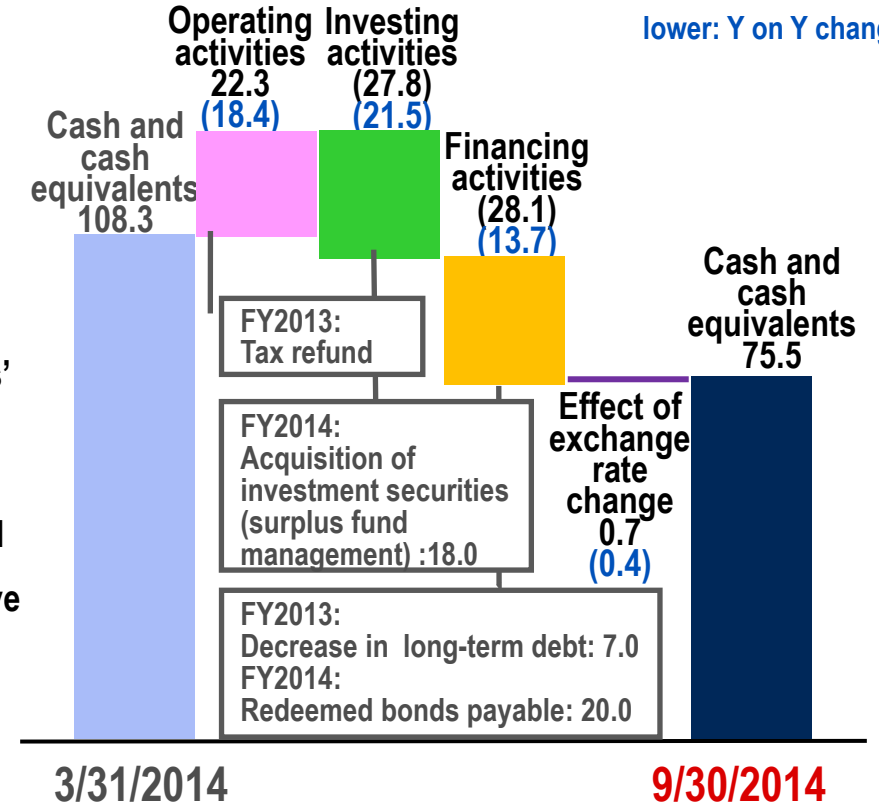
(Units: B yen)

Financial Position



	3/31/2014 *	9/30/2014
Equity ratio	79.9%	81.3%

Cash Flow



* The accounting policy for R&D expenses was changed effective Apr. 1, 2014. Figures for FY2013 have been restated to reflect this change

Statements of Revenue (Consolidated)

(Units: B yen)

	FY2014		Achievement (%)	FY2013 1H results	Y on Y	
	1H forecasts	1H results			change (%)	change
Prescription drugs	80.5	77.0	95.6	80.9	(4.9)	(3.9)
Total of 3 key products	34.5	34.0	98.7	32.5	4.8	1.5
Total of 8 strategic products	47.3	45.7	96.6	44.4	2.9	1.3
Overseas subsidiaries/export	15.0	14.6	97.0	15.4	(5.2)	(0.8)
Shionogi Inc.	7.9	7.4	93.9	9.5	(22.1)	(2.1)
Osphena®	2.5	1.7	67.5	a) 0.1	-	1.6
C&O	3.4	3.3	96.4	2.9	12.8	0.4
Contract manufacturing	4.8	6.1	126.4	5.0	21.1	1.1
OTC and quasi-drugs	2.4	2.5	102.2	2.3	5.7	0.2
Royalty income	26.0	28.3	108.9	33.4	(15.3)	(5.1)
Crestor®	24.2	24.4	100.8	31.2	(21.8)	(6.8)
Others	1.3	1.5	115.1	1.7	(12.9)	(0.2)
Total	130.0	129.8	99.9	138.7	(6.4)	(8.9)

Eight strategic products: Crestor®, Irbetan® franchise, Cymbalta® (3 key products), and OxyContin® franchise, Finibax®, Differin®, Pirespa®, Rapiacta®

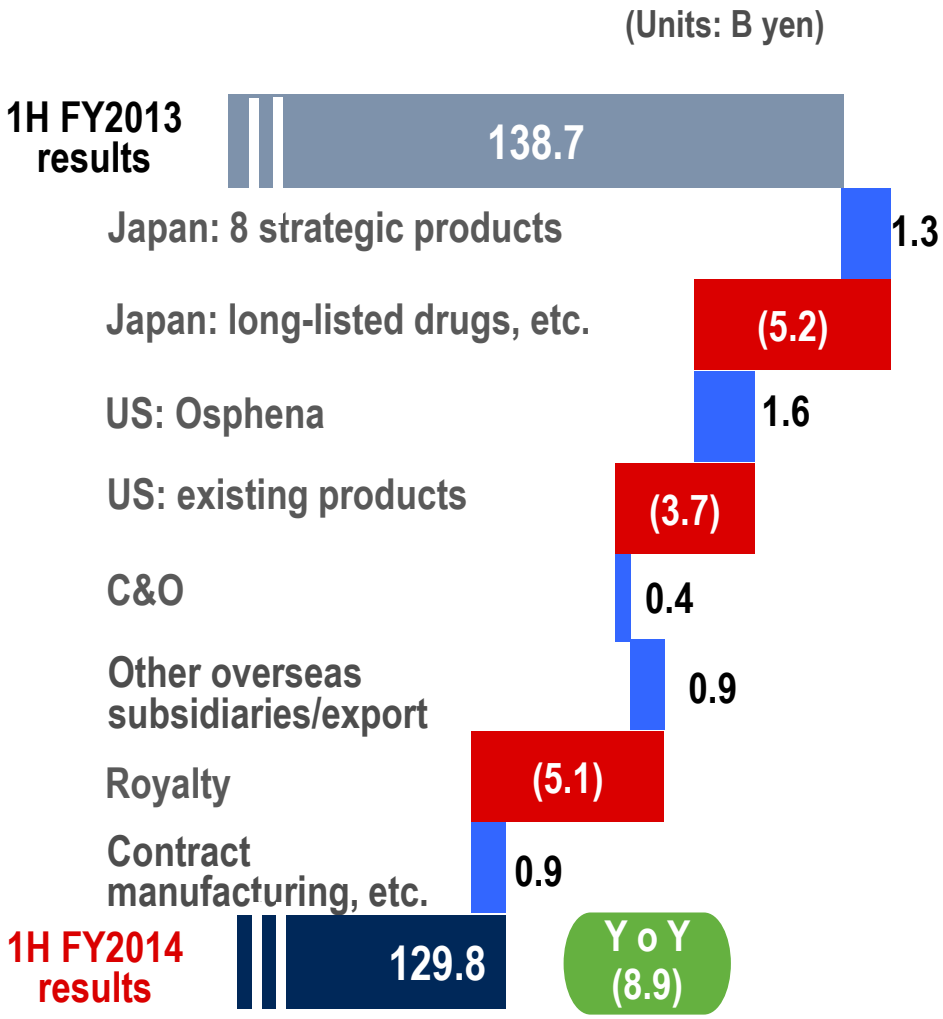
a) Osphena revenue recognition of 1H FY2013 was based on the number of prescriptions

Japan: Sales of 8 Strategic Products

(Units: B yen)

	FY2014		Achievement (%)	FY2013 1H results	Y on Y	
	1H forecasts	1H results			change (%)	change
Prescription drugs	80.5	77.0	95.6	80.9	(4.9)	(3.9)
Crestor	21.0	21.1	100.2	20.6	2.3	0.5
Irbetan franchise	7.3	7.5	103.1	6.7	13.0	0.8
Cymbalta	6.2	5.5	88.2	5.2	4.2	0.3
Total of 3 key products	34.5	34.0	98.7	32.5	4.8	1.5
OxyContin franchise	5.5	5.3	96.0	5.4	(1.7)	(0.1)
Finibax	2.3	1.9	84.0	2.3	(14.8)	(0.4)
Differin	2.1	1.8	85.5	1.9	(5.4)	(0.1)
Pirespa	2.7	2.6	96.6	2.4	10.8	0.2
Rapiacta	0.2	0.1	25.3	0.1	(33.6)	(0.0)
Total of 8 strategic products	47.3	45.7	96.6	44.4	2.9	1.3
[percent of sales]	58.8%	59.4%		54.9%		

Change in Sales vs. Previous Year



- **Japanese domestic business**
  - Negative impact of NHI drug price revisions averaged approx. 2%
    - Expanded sales of Crestor and Irbetan franchise despite lower NHI drug prices
    - Decreased contribution of long-listed drugs due to NHI drug price revisions and generic penetration
- **Shionogi Inc. (existing products)**
  - Divestiture of PSD502 in 2Q FY2014
  - Sales of FY2013 included Naprelan® and divestitures of pediatric products around (4.5)
- **C&O**
  - Expanded sales of *Amolin*
- **Royalty income**
  - Reduced royalty rate of Crestor due to the new agreement with AstraZeneca (6.8)
  - Increased other royalties
- **Other businesses on track**

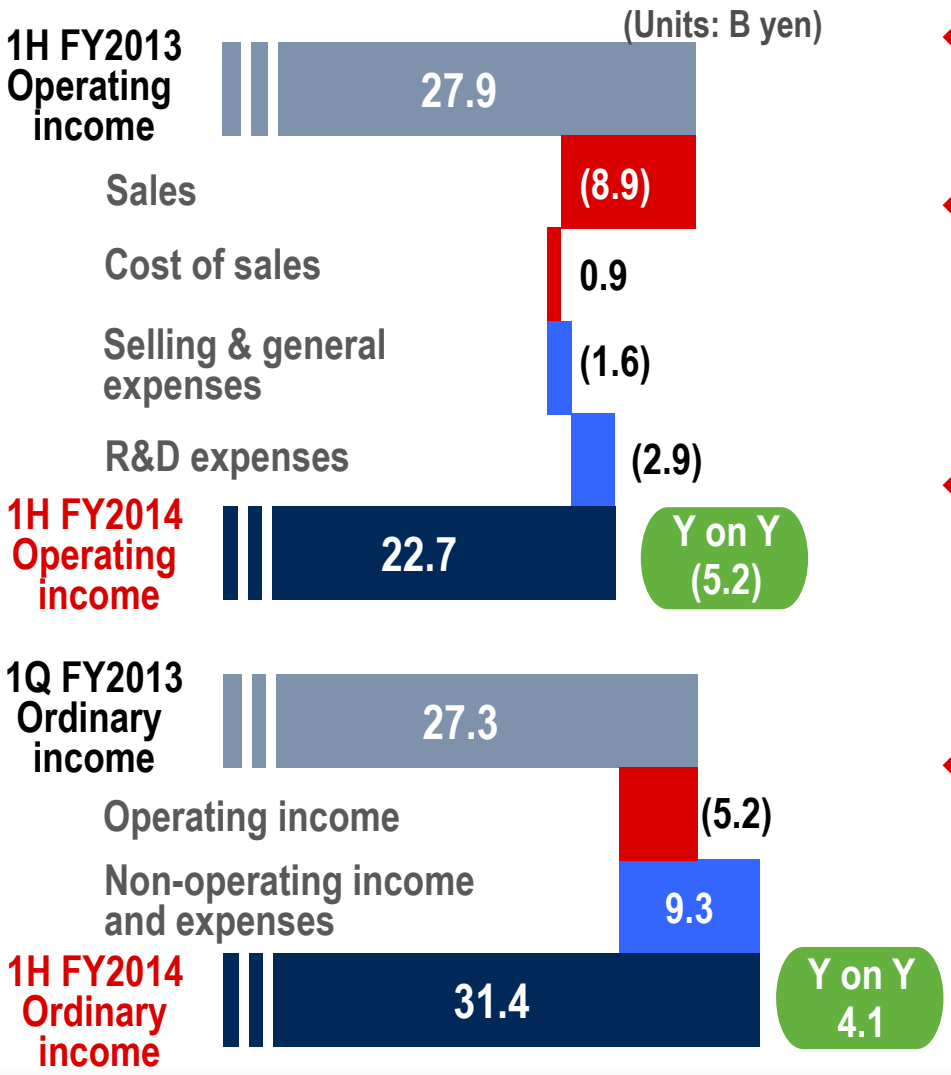
Statements of Income (Consolidated)

(Units: B yen)

	FY2014		vs. forecasts		FY2013 1H results	Y on Y	
	1H forecasts	1H results	Achieve-ment (%)	difference		Change (%)	change
Sales	130.0	129.8	99.9	(0.2)	138.7	(6.4)	(8.9)
[Royalty income]	26.0	28.3	108.9	2.3	33.4	(15.3)	(5.1)
Cost of sales	29.2 [36.5] 38.0	29.4 [37.6] 38.1	100.4	0.1	26.9 [35.4] 37.2	2.4	0.9
Gross profit	92.0	91.7	99.7	(0.3)	101.5	(9.6)	(9.8)
SG&A expenses	56.5 73.5	53.1 69.0	93.8	(4.5)	53.0 73.5	(6.2)	(4.5)
Selling & general expenses	46.5	45.8	98.4	(0.7)	47.4	(3.5)	(1.6)
R&D expenses	27.0	23.2	85.9	(3.8)	26.1	(11.1)	(2.9)
Operating income	14.2 18.5	17.5 22.7	122.8	4.2	20.1 27.9	(18.7)	(5.2)
[Excluding royalty income]	(7.5)	(5.6)	-	1.9	(5.5)	-	(0.1)
Non-operating income and expenses	P5.5	P8.7	158.1	3.2	L0.6	-	9.3
Ordinary income	18.5 24.0	24.2 31.4	130.9	7.4	19.7 27.3	15.0	4.1
Extraordinary income and loss	-	P0.2	-	0.2	P4.3	-	(4.1)
Income before income taxes and minority interests	24.0	31.7	131.9	7.7	31.6	0.1	0.1
Total income taxes, etc.	8.0	22.0	274.4	14.0	10.5	108.4	11.5
Net income	16.0	9.7	60.7	(6.3)	21.1	(53.9)	(11.4)

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties

Change in Earning Structure vs. Previous Year



- **Cost of sales**
  - Negative impact of NHI price revisions, exchange rate, etc.
- **Selling & general expenses**
  - Optimized costs in all group companies
    - Japan: Preferential investment in high-priority products and activities
    - Shionogi Inc.: Continued investment in Osphena
- **R&D expenses**
  - More focused investment in high-priority development programs
  - Reduced expenses by co-development with NovaQuest
- **Non-operating income and tax**
  - Increased dividends from ViiV
  - Accounted for increase in value of foreign-currency assets due to the weak yen
  - Reduced interest cost by repayment of debt

FY2014 Financial Forecasts

Actions in 1H FY2014

Began FY2014 with ordinary income forecast of 50 B yen

Establish a stable foundation for our mid- to long-term growth by clear priorities and focused resourcing in the first year of SGS2020

◆ Overcome the "Crestor Hill" as soon as possible

- Promote clear priorities and focused resourcing, appropriate cost allocation and reduction of cost of goods throughout the Shionogi group
- Focus sales resources on the domestic and US markets; i.e. those with the highest growth potential
- Accelerate R&D activities through clear priorities and focused resourcing

Achievements and Changes in Business Environment

Achievement in 1H FY2014: Ordinary income was higher than in 1H of any prior fiscal year

- Achieved tight cost control and focused cost allocation throughout all of the Shionogi group
- Royalty income exceeded the original forecasts by 2.3 B yen
- Increased dividend from ViiV Healthcare and increased value of assets in foreign currency generated by a drop in the yen

Changes in business environment

- Robust expansion of Tivicay franchise
- More difficult situation than expected in the domestic market
  - Effects of NHI drug price reductions
  - Lower than expected sales of long-listed drugs due to the promotion of generic drug use by the government and a competitive market

Challenges Detected in 1H FY2014

Identified challenges

- **Cost-effectiveness analysis throughout our business operations**
  - Achieved good cost control and focused resource allocation; however,
  - Need more analysis for maximally effective resource allocation
- **Strengthen the domestic business**
  - Growth in strategic products could not fully cover the unexpected sales decrease in long-listed products
    - Need more effective responses to changes in the domestic market
    - Need to drive Cymbalta growth in the pain/CNS area more intensively
- **Sales growth rate of Osphena in the US**
  - Reach a broader range of physicians with interest in treating dyspareunia
  - Increase effectiveness of our communications to physicians and patients

Key Actions for 2H FY2014

Undertake activities for our longer-term growth after FY2015 while meeting our revised ordinary income target in FY2014

- **Continued improvement of business operations**
  - Follow the PDCA cycle throughout the Shionogi group to check the results of our activities and investments while building a business structure capable of sustainably generating a good return on investment
- **Strategic resource allocation in the domestic and US businesses, and construction of a business base capable of realizing the full value of our mid- to long-term product portfolio**
- **Accelerating the development and launch of our late-stage pipeline products through investment of increased royalty income in FY2014 into R&D activities**

Revision of FY2014 Financial Forecasts (Consolidated)

(Units: B yen)

	FY2014							FY2013 results	Y on Y change (%)
	full year			1H	2H				
	original	revised	change	results	Original	revised	change		
Sales	269.0	273.5	4.5	129.8	139.0	143.7	4.7	289.7	(5.6)
Operating income	45.0	49.5	4.5	22.7	26.5	26.8	0.3	61.9	(20.0)
Ordinary income	50.0	58.0	8.0	31.4	26.0	26.6	0.6	62.2	(6.8)
Net income	33.0	30.0	(3.0)	9.7	17.0	20.3	3.3	40.6	(26.1)

Exchange rate (average)	FY2014 forecasts (original)	FY2014 forecasts (revised)	change
USD($) – JPY(¥)	100	105	5
EUR(€) – JPY(¥)	140	140	-
GBP(£) – JPY(¥)	165	170	5

Revision of Sales by Segments (Consolidated)

(Units: B yen)

	FY2014							FY2013 results	Y on Y change (%)
	full year			1H	2H				
	original	revised	change	results	original	revised	change		
Prescription drugs	167.0	163.5	(3.5)	77.0	86.5	86.5	-	168.3	(2.8)
Crestor	42.5	42.6	0.1	21.1	21.5	21.5	-	41.1	3.7
Irbetan franchise	15.9	16.5	0.6	7.5	8.6	9.0	0.4	13.9	19.0
Cymbalta	13.6	12.9	(0.7)	5.5	7.4	7.4	-	11.4	13.2
Total of 3 key products	72.0	72.0	-	34.0	37.5	38.0	0.5	66.3	8.5
OxyContin franchise	10.7	10.7	-	5.3	5.2	5.4	0.2	10.6	0.7
Finibax	4.6	4.2	(0.4)	1.9	2.3	2.3	-	4.7	(10.5)
Differin	4.6	4.4	(0.2)	1.8	2.5	2.6	0.1	4.4	0.1
Pirespa	5.6	5.5	(0.1)	2.6	2.9	2.9	-	4.8	14.4
Rapiacta	2.5	2.5	-	0.1	2.3	2.4	0.1	2.0	23.3
Total of 8 strategic products	100.0	99.3	(0.7)	45.7	52.7	53.6	0.9	92.9	6.9
Overseas subsidiaries/export	31.3	31.3	-	14.6	16.3	16.7	0.4	34.0	(8.0)
Shionogi Inc.	17.7	17.7	-	7.4	9.8	10.3	0.5	21.4	(17.2)
Osphena	7.0	7.0	-	1.7	4.5	5.3	0.8	1.1	536.6
C&O	7.5	7.5	-	3.3	4.1	4.2	0.1	5.9	27.7
Contract manufacturing	11.4	11.4	-	6.1	6.6	5.3	(1.3)	8.4	36.1
OTC and quasi-drugs	4.6	4.6	-	2.5	2.2	2.1	(0.1)	4.5	1.9
Royalty income	52.0	60.0	8.0	28.3	26.0	31.7	5.7	70.7	(15.1)
Crestor	47.5	49.0	1.5	24.4	23.3	24.6	1.3	65.7	(25.4)
Others	2.7	2.7	-	1.5	1.4	1.2	(0.2)	3.8	(29.2)
Total	269.0	273.5	4.5	129.8	139.0	143.7	4.7	289.7	(5.6)

Revision of Statement of Income (Consolidated)

(Units: B yen)

	FY2014 full year original	FY2014 full year revised	FY2014 full year change	FY2014 1H results	FY2014 2H original	FY2014 2H revised	FY2014 2H change	FY2013 results	Y on Y change (%)
Sales	269.0	273.5	4.5	129.8	139.0	143.7	4.7	289.7	(5.6)
【Royalty income】	52.0	60.0	8.0	28.3	26.0	31.7	5.7	70.7	(15.1)
Cost of sales	29.4 [36.4] 79.0	28.7 [36.8] 78.5	(0.5)	29.4 [37.6] 38.1	29.5 [36.3] 41.0	28.1 [36.0] 40.4	(0.6)	26.9 [35.6] 78.0	0.7
Gross profit	190.0	195.0	5.0	91.7	98.0	103.3	5.3	211.7	(7.9)
SG&A expenses	53.9 145.0	53.2 145.5	0.5	53.1 69.0	51.4 71.5	53.3 76.5	5.0	51.7 149.8	(2.9)
Selling & general expenses	93.0	93.5	0.5	45.8	46.5	47.7	1.2	96.2	(2.9)
R&D expenses	52.0	52.0	-	23.2	25.0	28.8	3.8	53.6	(3.0)
Operating income	16.7 45.0	18.1 49.5	4.5	17.5 22.7	19.1 26.5	18.6 26.8	0.3	21.4 61.9	(20.0)
【Excluding royalty income】	(7.0)	(10.5)	(3.5)	(5.6)	0.5	(4.9)	(5.4)	(8.8)	-
Non-operating income and expenses	P5.0	P8.5	3.5	P8.7	L0.5	L0.2	0.3	P0.4	-
Ordinary income	18.6 50.0	21.2 58.0	8.0	24.2 31.4	18.7 26.0	18.5 26.6	0.6	21.5 62.2	(6.8)

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties

Parallel Actions to Drive Mid- to Long-Term Growth

R&D

- Focus resources on innovative development programs to meet needs of patients and society,
- Maximize the value of products through innovative alliances
- Implement truly global development plans (JPN, US, EU and Asia)

Japanese Domestic business

- Strengthen customer-facing activities that are responsive in real-time to changes in the market environment
- Maintain continuous ROI improvement for profit growth
- Establish the business base to support the mid- to long-term product portfolio

US business

- US business to contribute to group profit by expanding Osphena sales
- Strengthen the women's health area and prepare for entry into the pain and infectious disease areas (including via alliances)

Maximize profitability by strengthening business operations

Grow as a drug discovery-based Pharmaceutical company

2014 — 2016 — 2020

FY2014 focus on steady operations while preparing for mid- to long-term Growth in the first year of SGS2020

Dividend Forecasts

	Dividends per Share		
	half-year	year-end	annual
	Yen	Yen (forecast)	Yen (forecast)
FY2014	24 . 00	24 . 00	48 . 00
FY2013	22 . 00	24 . 00	46 . 00

Forward-Looking Statements

- Forecast or target figures in this material are neither official forecasts of earnings and dividends nor guarantee of target, achievement and forecasts, but present the midterm strategies, goals and visions. Official earnings guidance should be referred to in the disclosure of the annual financial report (*kessan tanshin*) in accordance with the rules set by Tokyo Stock Exchange.
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